



State of Idaho

Legislative Services Office

Management Report on Internal Control

A communication to the Joint Finance-Appropriations Committee

STATE BRAND BOARD

FY 2003, 2004, and 2005

Report IC33105

Serving Idaho's Citizen Legislature

LEGISLATIVE SERVICES' MISSION STATEMENT

The mission of the Legislative Services Office is to provide efficient, nonpartisan support services to Idaho's citizen legislators, to carry out legislative policies so as to strengthen the legislature's management as a separate branch of government, and to assist the legislature in carrying out its constitutional responsibilities to the highest standards of integrity and professional excellence. (Approved by the Legislative Council, January 20, 1994.)

LEGISLATIVE AUDITS' CHARGE

Legislative Audits, a division of Legislative Services, is charged by the Legislative Council to provide a financial audit of the statewide annual financial report prepared by the State Controller, as required by Idaho Code, Section 67-429. In addition to special reports and requested studies, Legislative Audits produces three types of audit reports and two types of management reports (described below) for the Joint Finance-Appropriations Committee and other interested parties. These audits, reports, and studies, which vary in scope, provide information for oversight of State finances for the legislature, government entities, and the public, as well as satisfying federal audit requirements.

DESCRIPTION

LEVEL OF SCRUTINY

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Our opinion as to the fairness of presentation of the annual statewide financial statements; a reference to our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grants issued under separate cover in the State's *Single Audit*.

STATEWIDE SINGLE AUDIT REPORT

Our opinion on the schedule of expenditures of federal awards in relation to the State's basic financial statements taken as a whole; a report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards; a report on compliance with requirements applicable to each major program, and on internal control over compliance in accordance with *OMB Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations)*; recommendations to improve the State's financial/accounting system; and recommendations and questioned costs related to federal awards. In addition, the report includes the State's basic financial statements and the related opinion thereon.

INDIVIDUAL ENTITY AUDIT REPORT

Our opinion on the fairness of presentation of the entity's financial statements; a report on compliance, and on internal control over financial reporting, based on an audit of financial statements performed in accordance with Government Auditing Standards; if applicable, a report on compliance with requirements of each major program, and on internal control over compliance in accordance with *OMB Circular A-133*.

MANAGEMENT REPORT ON FINANCIAL PROCEDURES

A report based on specific procedures applied to the financial segments material to the statewide financial statement and an internal control review of those financial segments not deemed material to the statewide financial statements, or an audit of a major federal grant. Findings and recommendations are included, if applicable, to improve policies, procedures, compliance, controls, and the entity's overall efficiency.

MANAGEMENT REPORT ON INTERNAL CONTROL

A cyclical report highlighting the entity's internal control with findings and recommendations, if applicable, to improve the system to prevent errors, omissions, misrepresentations, oversights, and fraud, thus protecting State resources.

FOREWORD

PURPOSE OF REPORT

Internal controls were evaluated at the State Brand Board. This work, combined with audit work performed at other agencies, including the State Controller's Office, allows us to give our opinion on the statewide basic financial statements prepared by the State Controller's Office. This report summarizes the procedures and their results.

SCOPE OF WORK

The management of the Board is responsible for establishing and maintaining internal controls. We obtained an understanding of the relevant policies and procedures comprising the internal control system. We also determined whether the relevant policies and procedures had actually been placed into operation. Our evaluation of internal controls was performed in accordance with government auditing standards issued by the Comptroller General of the United States. It was not our intent to provide an opinion on the internal controls, and we do not give such an opinion. Our intent was to indicate where internal controls could be improved in order to help ensure the Board's ability to record, process, summarize, and report financial data accurately.

AUDIT AUTHORIZATION

Reported to the Joint Finance-Appropriations Committee as directed by the Legislative Council of the Idaho Legislature, authorized by Idaho Code, Section 67-429.

ASSIGNED STAFF

Brian Butkus, Staff Auditor

ADMINISTRATION AND TECHNICAL REVIEW

Ray Ineck, CGFM, Manager, Legislative Audits Division
Thomas Haddock, CPA, CGFM, Managing Auditor

GRAPHIC LOGISTICS

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EXECUTIVE SUMMARY LEGISLATIVE AUDITS

STATE BRAND BOARD

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the State Brand Board's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Board's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. We noted no matters involving the internal control over the Board's financial reporting or its operation that we considered to be material weaknesses. However, our consideration of internal controls would not necessarily disclose all matters considered to be a material weakness.

FINDINGS AND RECOMMENDATIONS. There are no new findings and recommendations in this report.

PRIOR FINDINGS AND RECOMMENDATIONS. There were three findings and recommendations in the prior report. The status of each is summarized below.

PRIOR FINDING #1. Use of State purchasing cards (P-cards) was not always supported with adequate documentation. The Board now obtains all supporting documentation to show that P-card transactions are proper, and makes the proper accounting entries to the correct expenditure categories. **Status: CLOSED**

PRIOR FINDING #2. The collection of inspection fees needed improvement. The Board monitors accounts receivable to ensure collections are made in a timely manner. The Board has emphasized the need for brand inspectors to remit collections in a timely manner, and much improvement has been made. **Status: CLOSED**

PRIOR FINDING #3. Compliance with State travel laws and regulations was not always adequate. The Board now requires all employees to submit travel vouchers and attaches all documentation to show that meal allowances are in accordance with State travel regulations. **Status: CLOSED**

AGENCY RESPONSE. The management of the State Brand Board has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report* that includes the financial data presented here.

The Board operates with the use of two funds in accordance with Idaho Code. Operating Fund 0229-15 receives money from brand inspection certificates, ownership and transportation certificates, and collections for other entities. The money is used for administering Board operations, principally brand inspections, and distributing collections to other entities. Recording-Holding Fund 0229-16 receives money from brand recording and renewals and the interest earned from investment of the fund's balance. The money is transferred to the Operating Fund when needed. A brief summary of the Board's cash basis financial activity for fiscal years 2003, 2004, and 2005 follows:

STATE BRAND BOARD – FINANCIAL SUMMARY

<u>Fund 0229-15</u>	<u>Fiscal Year 2003</u>	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2005</u>
Beginning Cash Balance	\$351,997	\$341,331	\$361,264
Receipts	1,714,164	1,784,959	1,859,231
Transfers From Holding Fund	420,000	375,000	505,000
Collections for Other Entities	2,356,400	2,304,614	2,335,872
Total Funds Available	<u>\$4,842,561</u>	<u>\$4,805,904</u>	<u>\$5,061,367</u>
Disbursements			
Personnel Costs	\$1,845,679	\$1,877,056	\$1,985,771
Operating Expense	273,290	275,089	281,479
Capital Outlay	40,851	2,780	87,539
Transfers to Other Entities	2,341,410	2,289,715	2,384,686
Total Disbursements	<u>\$4,501,230</u>	<u>\$4,444,640</u>	<u>\$4,739,475</u>
Ending Cash Balance	<u>\$341,331</u>	<u>\$361,264</u>	<u>\$321,892</u>
<u>Fund 0229-16</u>	<u>Fiscal Year 2003</u>	<u>Fiscal Year 2004</u>	<u>Fiscal Year 2005</u>
Beginning Cash Balance	\$826,789	\$683,821	\$565,579
Receipts	248,351	244,099	233,395
Interest Income	28,731	12,739	11,097
Total Funds Available	<u>\$1,103,871</u>	<u>\$940,659</u>	<u>\$810,071</u>
Disbursements	\$50	\$80	\$70
Transfers Out	420,000	375,000	505,000
Total Disbursements	<u>\$420,050</u>	<u>\$375,080</u>	<u>\$505,070</u>
Ending Cash Balance	<u>\$683,821</u>	<u>\$565,579</u>	<u>\$305,001</u>

The Board collects 22¢ for Animal Industries livestock disease control and 4¢ for Sheep Commission predator control for each animal inspected. The money, less a collection fee, is distributed monthly to the Idaho Department of Agriculture. The Board also collects \$1.00 for each head of cattle inspected for the Idaho Beef Council, and \$3.00 for each horse inspected for the Idaho Horse Board. An Unclaimed Animal Fund is used to retain proceeds from the sale of animals whose ownership cannot be determined. The proceeds are used to pay the cost of keeping and selling the livestock.

Following is the cash basis financial activity for other entities for fiscal year 2005:

	Animal Industries	Sheep Commission	Beef Council	Horse Board	Unclaimed Animal	Total
Beginning Cash (FY 04)	\$34,336	\$6,524	\$140,860	\$2,783	\$89,654	\$274,157
Receipts	409,349	77,776	1,783,864	21,502	43,630	2,336,121
Disbursements	419,374	79,681	1,825,361	21,719	38,477	2,384,612
Ending Cash	\$24,311	\$4,619	\$99,363	\$2,566	\$94,807	\$225,666

OTHER ISSUES. We discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the State Brand Board and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Larry Hayhurst, State Brand Inspector, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Manager, Legislative Audits Division

Thomas Haddock, CPA, CGFM, Managing Auditor

AGENCY RESPONSE



STATE OF IDAHO

IDAHO STATE POLICE

IDAHO BRAND BOARD



Colonel R. Dan Charboneau
Director

September 20, 2006

James E. Risch
Governor

Larry A. Hayhurst
State Brand Inspector

DuWayne Skaar
Board Chairman

Mr. Ray Ineck CGFM
Manager
Legislative Audits P.O. Box 83720
Boise, Idaho 83720-0054

RE: Legislative Audit FY 2003, 2004 and 2005

Dear Mr. Ineck,

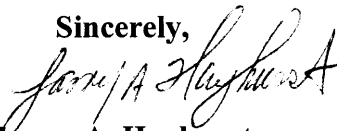
I would like to personally thank you, Managing Auditor Tom Haddock and your entire Staff for Legislative Audit FY 2003 thru 2005.

As expected, your Staff Auditor Brian Butkus was extremely thorough and diligent during the timeless process of sorting out, reviewing, analyzing and cross checking reams of information.

Ray, speaking of Mr. Butkus, he truly did a fantastic job and even though he may be a relatively new Auditor for your department, I was very impressed at not only how hard Brian worked each day, but how smart he worked. He studied and evaluated our procedures, asked the appropriate questions and most importantly, was certainly not afraid to ask the "hard" questions. He will no doubt be an excellent asset to your already impressive Staff.

Mr. Ineck, again, like every other time you folks have invaded the Brand Department, we all learned something new and came away with valuable informational solutions to help us do our jobs better, thus enhancing the protection of the hard earned resources placed in our care by the livestock owners of this great state.

I will be looking forward to the next Audit. Thank You!

Sincerely,

Larry A. Hayhurst
State Brand Inspector



Colonel R. Dan Charboneau
Director

Larry A. Hayhurst
State Brand Inspector

STATE OF IDAHO

IDAHO STATE POLICE

IDAHO BRAND BOARD

September 20, 2006



James E. Risch
Governor

DuWayne Skaar
Board Chairman

AGENCY RESPONSE

Prior Finding #1 Use of State purchasing cards (P-cards) was not always supported with adequate documentation.

Status: CLOSED

Prior Finding #2 The collection of inspection fees needed improvement.

Status: CLOSED

Prior Finding #3 Compliance with State travel laws and regulations was not always adequate.

Status: CLOSED

Obviously, the Idaho Brand Board is pleased that our corrective action plans devised and activated with the Legislative Auditor's recommendations at heart, successfully rectified and/or made significant improvements with the inadequacies identified in the findings of our last audit.

This Audit was definitely satisfactory, as the status of our three prior findings were not only closed, there were no "New Findings". But, even though this audit was satisfactory, it does not allow the Brand Board to relax our vigilance or take anything for granted. I can assure you, we will continue to follow the Legislative Auditor's leadership role, recommendations, and always strive to improve our weak areas and let's not forget, document, document, document...

PRIOR FINDINGS AND RECOMMENDATIONS

The prior report covered the fiscal years ended June 30, 2000, 2001, and 2003, and included three findings and recommendations. The following explains the status of the findings and recommendations.

PRIOR FINDING #1

Use of State purchasing cards (P-cards) was not always supported with adequate documentation.

From November 2000 to May 2003, the Board used P-cards to make purchases and to receive cash advances totaling \$44,000. The Board could not provide supporting documentation to show how \$11,000 of these purchases and advances were used. For example, \$2,100 of P-card advances (automatic teller machine withdrawals) had no documentation to show how they were used. Similarly, hotel charges and other P-card purchases did not have documentation to show they were valid and proper Board expenditures. Furthermore, the Board's accounting was incomplete in that the Board did not obtain the necessary P-card expenditure documentation to correctly record the P-card expenditures in the State's accounting records.

We recommended that the Board obtain supporting documentation to show that P-card transactions are for valid Board business, and make complete accounting entries in the State accounting system.

The Board now obtains all supporting documentation to show that P-cards transactions are proper, and makes the proper accounting entries to the correct expenditure categories.

Status: CLOSED

PRIOR FINDING #2

The collection of inspection fees needed improvement.

The Board collects about \$4.4 million each year for brand inspections. Inspections, usually paid by sellers, are completed when ownership of livestock changes. In some cases, the Board did not collect the fees or establish an accounts receivable in the seller's name. Instead, accounts receivable were established in employees' names, and monthly statements were sent to the employees instead of to the sellers. Although employees carried these accounts with the intent of collecting the fees, many of these were outstanding for more than a year and were not collected. Also, collected inspections fees were not always deposited in a timely manner. For example, one employee held

Status: CLOSED

PRIOR FINDING #3

Status: CLOSED

more than \$100 in cash for two months before remitting it for deposit.

We recommended that the Board monitor accounts receivable and deposit collections in a timely manner.

The Board monitors accounts receivable to ensure collections are made in a timely manner. The Board has emphasized the need for brand inspectors to remit collections in a timely manner, and much improvement has been made. Although we understand it is difficult to comply with Idaho law and the Board's own policy regarding the submission of inspection fees, we encourage the Board to continue doing its best to ensure timely deposits.

Compliance with State travel laws and regulations was not always adequate.

The Board did not always comply with State travel laws and regulations. For example, Board employees did not always submit travel vouchers as required by Idaho Code, Section 67-2006, and did not retain documentation to show meals were provided in accordance with State regulations.

We recommended that the Board submit travel vouchers in accordance with Idaho law, and provide meals in accordance with State regulations.

The Board now requires all employees to submit travel vouchers and attaches all documentation to show meal allowances are in accordance with State travel regulations.

APPENDIX

HISTORY

Prior to 1905, the official recording of livestock brands during the territorial period and early statehood was done on the county level. Recording brands as a State responsibility began in 1905, with legislation that made the State Controller the ex-officio State Recorder of Brands. The following is a chronology of the State agency responsible for recording livestock brands to their owners.

1905-1911	State Controller – Session Laws 1905, page 352
1911-1919	State Veterinary Surgeon – Session Laws 1911, Chapter 91, page 338
1919-1939	Department of Agriculture – Session Laws 1919, Chapter 8, page 43
1939-1943	State Brand Inspector and Bureau of Brands and Marks within the Department of Agriculture – Session Laws 1939, Chapter 268, page 661
1943-1947	Idaho State Police – Session Laws 1943, Chapter 70, page 147
1947-1974	State Brand Board (State Brand Inspector) established, and all duties transferred to the Brand Board – Session Laws 1947, Chapter 88, page 149
1974-Present	State Brand Inspector placed under State Brand Board within Idaho State Police

The Brand Board and the Idaho State Police provide reciprocal support in some complex areas. Currently, the Board is generally operating as a separate agency except in the areas of budgeting, major purchases, and personnel actions, where it is given assistance by the Idaho State Police. Brand inspectors in the field assist law enforcement agencies in cases of emergency, such as instances where a traffic accident occurs and the brand inspector is the first State vehicle at the scene.

STATUTORY AUTHORITY

Statutory authority for the Brand Board was recodified in 1988, and is now found in Title 25, Chapter 11 of the Idaho Code.

PURPOSE

The purpose of the Board is to prevent and, where possible, reduce the theft and loss of livestock in Idaho. In 1974, the mandatory brand inspection system was enacted as a part of the revised brand law, wherein proof of livestock ownership must be shown before livestock is transferred to a new owner.

FUNDING

The Board receives its funding from fees for livestock inspections, registrations, transferring and renewal of brands, selling brand books, and interest on brand and renewal fees. Fees are received by the Board for collecting and remitting funds to the Idaho Beef Council, the Idaho Horse Board, and the Idaho Department of Agriculture.

ORGANIZATION

The Board consists of five members appointed by the Governor to five-year terms. The Board appoints the State Brand Inspector, who manages the Board's daily operation. The State Brand Inspector and clerical staff are located in Meridian. The total number of staff employed by the Board in fiscal year 2005 was 55, of which 39 are permanent and 16 are part-time. The Board has four district offices located in Caldwell, Idaho Falls, Lewiston, and Twin Falls. Each district has a supervisor to whom the brand inspectors report.

ORGANIZATION CHART IDAHO STATE BRAND BOARD

